

4*
Jeremy Bentham

THE
INIQUITY OF BANKING.

PART II.

CONTAINING
A FURTHER ILLUSTRATION
OF THE
INJUSTICE OF THE PAPER SYSTEM:
AN ENQUIRY INTO THE
NATURE AND PROBABLE CONSEQUENCES
OF THE
BANK INDEMNITY BILL,
AND
A PLAN FOR REMOVING
(OR AT LEAST ALLEVIATING)
THE EVILS PRODUCED
BY THE
CIRCULATION OF BANK NOTES.

SECOND EDITION.

L O N D O N:

PRINTED BY J. S. BARR, BRIDGES-STREET, COVENT-GARDEN,
FOR J. S. JORDAN, NO. 166, FLEET-STREET.

MDCCC.



T
was
but a
foun
the M
fyster
chan
baraf
the p
the p
with
quite
foref
the c
to a
will
incre
of P
D

ADVERTISEMENT.

THE latter part of the present Treatise, was ready for publication about two years ago, but as the only hopes of obtaining peace were founded on the probable embarrassments of the Minister, and as it was foreseen that the system that was pursued for the relief of Merchants and Bankers, would hasten those embarrassments, it was intended to have deferred the publication until a peace, at which time the proposed plan might have been adopted with great ease. The case, however, is now quite altered, the embarrassments that were foreseen have arrived, but without producing the expected effect, ministers have had recourse to a measure which, at the same time that it will enable them to continue the war, will increase all the evils produced by the circulation of Paper.

Delay, therefore, is now no longer necessary.

ADVERTISEMENT.

THE latter part of the present Treatise, as ready for publication about two years ago, but as the only hopes of obtaining grace were founded on the prophetic embassments of the Minister, and as it was foreseen that the present that was pursued for the relief of Ministers and Bishops, would hasten these embassments, it was intended to have delayed the publication until a period, at which time the proposed plan might have been adopted with great ease. The case, however, is now altered, the embassments that were intended have arrived, but without producing the expected effect, Ministers have become a measure which, at the same time that it will enable them to continue the war, will destroy all the evils produced by the circulation of the paper.

It being, therefore, is now no longer necessary.

INIQUITY OF BANKING,

§. 1. §. 2. §. 3.

PART II.

THAT men in trade have a right to make as much profit on their money as they possibly can, is an opinion so very generally received, that the success of any attempt to prove it erroneous must be very doubtful: that notwithstanding the existence of such a right is so strenuously contended for, we are constantly endeavouring to prevent men from enjoying it. The law, for example, respecting bread, is in direct opposition to this supposed right; for it is intended to restrain the profit of Bakers. The laws to prevent what is called regrating and forestalling, are of the same nature with the former; they are designed to prevent men from making the greatest profit they possibly can on their money. supposing, however, that this were not the case, and that no attempt had ever been made

to regulate the profits of people in trade, no argument could be drawn from thence in support of the Banking System. For, although the right were admitted, and men were constantly allowed to make the greatest possible profit on their money, it would not follow that they had a right, or ought to be permitted to multiply the money itself—that out of one guinea they had a right to make five or six. “A banker (see Smith’s *Wealth of Nations*) with one guinea in gold can circulate five or six guineas in paper, upon which he makes the same profit as on an equal number of guineas in gold.” The effects, therefore, produced by circulating Bank Notes are the same both with respect to the banker and the public, as if he had cut a guinea into five parts, and by skilfully mixing the gold with some other metal, made each of the parts pass for a guinea. The necessary consequences of such a multiplication of money, one would think, must be to all men obvious on the least reflection. It is certain, however, that those effects have been overlooked, otherwise we should have spared ourselves the many fruitless attempts that have been made to prevent the exorbitant rise in the price of provisions. But still we persist in our endeavours to remove the evil, without ever thinking of its primary cause, and there is at this moment a bill preparing for that purpose. It has been stated by the author of this



Bill, " that cattle are bought and sold three or four times before they come into market; and that at each transfer the price is enhanced." Now must it not be evident from this frequent transfer of the same commodity, before it comes to the consumer, that there is a great super-abundance of money employed in this business? " The price of commodities (says Dr. Smith) will rise according to the wealth of the competitors." If then we suffer the quantity of money that can be brought to market to be encreased, the price of provisions must necessarily be raised. Does not the Honourable Member know, that all the buying and re-buying of which he complains, is by means of *Paper* which passes as *Gold*? While, therefore, the present quantity of Bank Notes is continued, and especially if encreased, all his endeavours to lower the price of provisions must prove abortive; for it is attempting to prevent an effect without removing the cause.

Had banking been at first attempted on the footing it is managed at present, it never would have been endured, as its injustice would have been immediately perceived. But at the outset it was quite a different proceeding from what it is at present. Bankers at first only lent money, but now they coin it.

The first introduction of Paper into commerce was on fair and unexceptionable principles: as for example, A in London is indebted

debted to B in Bristol; B in place of sending to London for the money, draws a bill upon A in favour of C, a banker, who negotiates the bill, advances the money, and charges a certain sum for his trouble, and a further sum as interest, according to the time the bill has to run before it becomes payable. D, another merchant in London, has a sum of money owing to him by E, a merchant in Bristol; D draws a bill on E in favour of F, a banker, in London, who advances the money; the two bankers, C and F, correspond; and C negotiates in Bristol the bill drawn in favour of F, and F negotiates in London the bill drawn in favour of C. By this means all the trouble and risk of sending money from London to Bristol, and from Bristol to London, is avoided, except so much as is necessary to balance the account. When it happened that the bankers had not a sufficient quantity of money of their own for discounting all the bills that were offered them, they borrowed of other people who had money by them, but who did not chuse to take the trouble of negotiating the bills themselves. The difference between the interest paid by the bankers to those of whom they borrowed money, and that which they received from the merchants, together with what they received for what is called commission, was their *profit*. This was the original nature of the banking business—and so far every thing

was fair; every man reaped a profit in proportion to his property. The bills that were drawn by no means stood in the place of money. They were only a kind of bonds on which money was borrowed. No commodities, strictly speaking, were either bought or sold, except for money.—But the case is now wonderfully altered. As soon as the bankers perceived that their credit was so good that they could at all times borrow money on their *promissory notes*, they imagined that if their notes were made sufficiently small to answer the purposes of cash, in buying and selling, they would be used as such. Therefore, in place of borrowing money on their notes as usual, they gave the notes to the merchants in exchange for their bills; and from the time of their being issued to the time they were presented for payment, the bankers derived the same profit from the notes as from so much gold. This, therefore, was a manifest deviation from the general principle respecting property, *viz.*

“That no man ought to have a share in the productions of society greater than in proportion to his property:” for by this means, a banker with one thousand pounds would have a revenue equal to another person, who had property to the amount of four or five thousand pounds. But it must be evident, that a person worth one thousand pounds can have no more right to the revenue justly arising

ing from two thousand pounds, than another, without any property, to a revenue from one thousand pounds.

This evil, however, as is generally the case, soon made way for another. The bankers, while they continued to trade only on their own money, or that of other people for which they were answerable, were careful in examining before they discounted a Bill, whether the drawer possessed an adequate property. No man, therefore, could then *trade but upon property*. But when, by the circulation of their notes, their profits were doubled or trebled, they could well afford to run some *risks*. They were, therefore, ready to discount almost any bills that were presented. It is this traffic which has introduced the spirit of *monopoly*, and that furnishes the means for supporting it. It is this too which has produced what is called speculation, by which *trade* has become perfect *gaming*, and all property engaged in is rendered exceedingly *precarious*: for it is to this that we are indebted for the numerous bankruptcies that are constantly taking place. These bankruptcies are never considered in their true light.—When it is found that a man has not property to answer his debts, or that he has lived beyond his income, such a person is said to have robbed his creditors; but the truth is, he has not only robbed his creditors, but has likewise *robbed the public*

—for if a man of one hundred a year income lives at the rate of five or six hundred a year, he will consume five or six times the quantity of commodities that fall to his share, and that he cannot do but at the expence of the public. If I lend a man my money, I only enable him to obtain what I had a right to myself, but if I lend him my credit, I enable him to obtain what neither he nor I had any right to: for whatever may be the means by which a person, without either property or an adequate quantity of labour, acquires a part of the productions of the society, the acquisition must be unjust. The bankrupt who has been living at the rate of five or six hundred, or five or six thousand pounds a year, has really been robbing the public to that amount. For as it is not to be supposed that his creditors would have encreased their consumption, it must be obvious, that he will have consumed a quantity of commodities that would otherwise have been divided among all the members of the community. The bankers, therefore, not only rob the public themselves, but, by discounting *bad* bills and giving *credit*, enable others to do so too; yet these men have been represented as benefactors of the country. Such a mistake might, at first sight, appear rather extraordinary, but that is by no means the case; for nothing is either more common or less difficult, than to impose upon the public.

“ The

“The interests of the commercial class,” says Dr. Smith, “are never exactly the same with that of the public; they have generally an interest to oppress and deceive the public, and accordingly have, on many occasions, both deceived and oppressed it.” The means they have used to effect their purpose, have been to persuade the nation that their *particular* interest was the *public* interest, and that it was the latter they meant principally to promote. Do a set of bankrupt merchants and bankers apply to government for a loan? they have no views but the support of public credit. Do the same men associate for the purpose of forcing the circulation of bank notes? nothing can be more *patriotic* than their motives; they are only anxious to support public credit! the words *public credit* however, in the mouth of these men, have no other import than the words “church and king, no popery, &c. &c.” in the mouths of the partizans of a minister; they are mere cabalistic words thrown out to deceive the public. When the merchants and bankers associated for the purpose of forcing the circulation of paper, they were impelled to do so by motives exactly similar to those which unite a *band of robbers in defence of their chief*. Bank of England paper was requisite for circulating the paper of merchants and bankers;—these description of men therefore, united to promote its circulation

had it on the contrary interfered with, and impeded the circulation of their own paper they would have united to oppose it.

The only aim of bankers and speculating merchants, is to extend the circulation of their paper. Whatever means seem likely to effect their purpose, will be eagerly adopted, and none seem more likely to deceive the public, as to their real views, than by pretending one thing when they intend another.

Were the merchants and bankers of any particular town, to call the inhabitants together and inform them, that they had carried their engrossing, their monopolizing, and speculating trade to such a length, that they were then in a state of insolvency, and were, therefore, to entreat the inhabitants to lend them a sum of money, without which they could not reap the fruits of their speculations; is it likely that the inhabitants would comply with the request? Certainly not. "Be content," they would say, "that we have already suffered *you* to rob us, but do not expect that we will aid in the robbing of ourselves. By your luxury and extravagance, by your engrossing and monopolizing, by your buying and rebuying, you have already sufficiently plundered us; nothing could be more advantageous for us, than your *insolvency*; your present embarrassments will, at least, interrupt for a time your depredations." Such too would have been the answer from the nation

nation to the merchants and bankers, when they applied for assistance in 1793, and on so many occasions since that time, had they spoken the truth, and stated the real cause of their embarrassments. For they must have acknowledged "that it was the desire of securing the immense profits to be acquired by *monopolies*, by *loans*, and by *contracts*, that had led them to extend their paper and speculation to such a length that they were absolutely become insolvent: and that if the minister did not step in to their relief, they must forego all the profits they expected to derive from the *plunder* of the nation. But such language would no more have answered their purpose, than it would the purpose of a minister, in giving as a reason for plunging a nation into a war, or for using bribery and corruption, "that he wished to keep his place." "No, says the minister, it is not *my place*, but the *King and Constitution*, that I wish to preserve;" with equal truth, bankers and merchants tell us that it is not *their credit* about which they are solicitous, but the public credit?

It is surprising to think how much the nation has been imposed upon by thousands, and how anxious it has always appeared about public credit, without having any definite idea of what is meant by the terms. When bankers and merchants speak of public credit, they only mean their *own* particular credit; at least that is the *only* credit that
virtually

virtually was ever in any danger. Now suppose that all, or the greater part of the merchants and bankers in London were literally, as they are virtually bankrupts; what might probably be the consequence? should we lose any part of the commodities now in the country? or should we lose the power of producing an equal quantity next year? most certainly not. What would be then this apprehended terrible national calamity? probably a few hundred pounds worth of paper that now passes for millions of guineas, would be committed to the flames; and not a few gentlemen, who without any property of their own, are at present enabled, by means of paper credit to ride in their coaches or chariots, would be obliged to descend to the pavement. As for the rest, every thing would in a few days go on as usual. CREDIT is not as it has been represented a *delicate* but a very *hardy* plant. The man who is a bankrupt to day finds little difficulty in getting credit to morrow. The same would be the case in a general bankruptcy.* It would only be a kind of

GENERAL

* There cannot be a greater mistake than to suppose that a general bankruptcy among merchants and bankers, would necessarily occasion a national bankruptcy. The ability of a nation to pay its debts, depends upon the quantity of its riches. But we have already seen that no part of our riches would be destroyed by a general mercantile bankruptcy; for it would be too ridiculous to suppose that the paper now in circulation

GENERAL RELEASE. The paper now in circulation would disappear. Credit would be given as formerly, and the mercantile machine would proceed in its usual tract, until an equal quantity of paper produced an equal embarrassment. It is evident, therefore, that the fears entertained of some great evil being the consequence of a general bankruptcy among the merchants and bankers, are groundless; and that the unheard of measures that have been adopted in order to prevent such an event, so far as the interests of the nation are concerned, are altogether inexcusable.

It was predicted, in the former part of this work, that all the banks in the kingdom would stop payment the moment that any extraordinary demand should be made. That prediction is now completely fulfilled. All the banks in the kingdom have stoppt payment *in cash*. They are all *virtually* bankrupts, for they have broken their engagements. Many of them are, and all of them would have been *literally* bankrupt, had not the measures already

(which is the only thing that would be lost,) constitutes any part of our riches. The only effect that would be produced by such an event, would be to alter the present distribution of riches; their quantity would remain the same, (and consequently our ability to pay our debts, would be as great) after, as before the bankruptcy.

ready alluded to been adopted.—For admitting that the nominal capitals of Bankers were equal to their debts, it would not follow that they would be able to pay their creditors. The value of a thing is exactly what it will sell for. Had all the property of bankers, consisting of lands, stock, bills, &c. been brought to market in order to raise money to pay their creditors, the whole would not, in all probability, have sold for one half of its nominal value*.—That part especially consisting

* This would have been particularly the case with the Bank of England if it had become bankrupt, which, without the interference of Government, must certainly have happened. For supposing the nominal value of its capital in the funds to be twelve millions, its real value at the present price of Stock is not more than six millions.—But if its paper had ceased to circulate, (which it must have done in the case of a bankruptcy) this capital would not have sold perhaps for more than three millions. That part of its capital which consists of Merchants Bills, would have sold proportionally for still less. It is evident, therefore, that its creditors would have been ruined whatever might have been the nominal amount of its capital. It has been for want of attending to this difference between the nominal value of the capital and its real value in the case of bankruptcy, that some persons have been led to suppose that Mr. Paton was guilty of an inconsistency in having made the profits of the Bank so very great, and yet prevented its approaching bankruptcy. However great its profits or capital might have been when it could no longer fulfil its engagements for want of cash, it must have become bankrupt. But it does not necessarily follow because the profits
mad

sisting of bills would have hardly been worth any thing, as the greater part of the drawers would likewise have become bankrupt.— Their creditors, therefore, would have lost the greater part of their property, even when the nominal value of the capital was equal to the debt. This, however, would

not

made by Bank paper is such as Mr. PAINE has stated, or such as I shall shew it presently to have been, that the Bank, in its Corporative capacity, should be rich. The paper of the Bank may have been, and certainly has been, used for circulating the paper of individuals :—so that all the profit arising from loans, from contracts, &c. &c. may have been reaped by the rulers of the Bank and their friends. Doctor Smith has observed, that all joint-stock companies, without exclusive privileges, have been ruined by the *disbonesty* of their servants, to whose depredations they are constantly exposed. An exception, however, is made in favour of Banking Companies ; but certainly without any sufficient reason : for no Companies can possibly be more in the power of their servants.—But there is this difference perhaps between a Banking Company and a Company of any other kind : that although it be the interest of the managers to let it have as small a share as possible in the profits, yet it is necessary that its credit should be maintained, and that it should be preserved from absolute bankruptcy. This will account for the present state of the Bank of England. Had it, instead of being a joint-stock Company, been in the hands of a few individuals, who had managed it for their own advantage, there is no doubt but that one half the property of the kingdom would have been by this time in the possession of the proprietors ; whereas, at this moment, though it were possible to dispose of all its capital at the present price of Stock, it would hardly be able to discharge all its debts.

not
prob
their
prob
profi
short
ed ba
the f
it ma
menf
in the
ers m
failur
credit
circul
Th
ed to
mer p
nitely
quiry
ces of
Bank
Indem
in a p

• It w
to ascertain
By this la
against the
vious to
enabled it

not by any means be always the case. The profits of bankers are certainly enormous; but their luxury and extravagance may exceed, and probably in many cases have exceeded their profits. Other causes of their effects falling short of their debts are their having discounted bad bills, and speculated unsuccessfully in the funds. From all, or any of these causes it may happen, that notwithstanding the immense profit made by the circulating of paper in the place of cash, still the capitals of bankers may fall short of their debts.—By their failure bankers would certainly rob their creditors; and while their notes continue to circulate, they rob the public.

That all the evils which have been ascribed to Bank Notes both in this, and in the former part of this treatise must be now indefinitely increased, will be obvious on a slight enquiry into the nature and probable consequences of the two acts of Parliament respecting Bank Notes; especially of that termed Bank Indemnity-Bill: A law, (whether considered in a private * or public light) so pregnant with

* It would seem as if the framers of this law had intended to ascertain by experiment how far injustice might be carried. By this law they have in the first place guaranteed the Bank against the claims of all its creditors for debts contracted previous to the 28th of February, 1797. Secondly, they have enabled it to contract fresh debts, by making it legally responsible

with injustice and oppression, that without supposing its nature to have been perfectly misunderstood, it will be impossible to account either for its being enacted or for the indifference with which it has been received by the public. That the government of a country

is liable for debts contracted after that period, by which a most unjust distinction is made among the creditors of the same individuals; and lastly, by this Bill they have put a whole class of the society out of the protection of the law, seized their property, and thrown them for the means of subsistence on the charity of the other members of this community! The only motive for this last act of injustice is, that the Minister may escape the odium which he apprehends will be attached to the act of making Bank paper a general legal tender. But odium ought only to be attached to injustice; and surely it is the height of injustice to add insults to oppression. But no insult can be greater than offering to the National Creditor paper, which is of no legal value whatever. Although he is obliged to receive it of the Bank, no person is obliged to receive it of him; therefore, with millions of it in his pocket, his goods might be seized and his person be left to rot in a jail! If it were really necessary to make paper a legal tender, it ought certainly to have been made a general tender, the evil being in that case borne by all, would have been comparatively light. But, certainly such a measure was altogether unnecessary. The Bank would always have been able to circulate, with the cash collected in payment of taxes, a sufficient quantity of paper for paying the National Creditor. The superfluous quantity of its paper ought to have been cancelled by the sale of its Stock in the national funds. The National Creditor therefore is robbed only in order to enable the Bank to circulate the paper of merchants and bankers, which it could not possibly do, if the quantity of its paper were reduced.

country should have made a law to make the paper of a particular corporation equal to gold, or that the people of the country should have submitted to such a law without a single remonstrance, are circumstances that never would have been thought possible, if they had not taken place. By the Bank Indemnity-Bill; the whole property in the kingdom is virtually put into the power of the Bank. For as all transfers of property are made by the intervention of Bank Notes, there is nothing to prevent the Bank from purchasing whatever is brought to market; whether it be land, stock or property of any other kind. The Bank has only to fabricate an additional quantity of notes. Could Government have conferred upon the Bank the power of turning atoms into gold, it would not have equalled the power it enjoys at present. The labour that would have been requisite for converting bars of gold into guineas, would have far exceeded that which is requisite for converting paper into guineas: Yet while they continue to circulate, the Bank derives the same profit from its paper-guineas, that it could have derived from guineas of gold.

But in order to render more intelligible the nature and extent of the power conferred on the Bank by this Bill, let us suppose for a moment, that it had been conferred on an individual. Let us suppose that he is impowered to circulate a quantity of notes equal to

D

his

his capital; and let us further suppose that his capital consists of one thousand pounds vested in the funds. In that case he would be entitled to issue notes to the amount of one thousand pounds. Suppose he applies these notes to the purchase of Stock. This capital will then be doubled, and consequently he may issue a second thousand pounds in notes. If these are employed in the same manner as the former, he will then have triple the quantity of Stock that he had at the beginning, and therefore may issue a third thousand pounds worth of notes; and in this manner he may go on increasing his capital, and the quantity of his notes in circulation, to any amount whatever. And consequently may realize just what fortune he thinks proper.

It may perhaps be objected that the issuing so great a number of notes would necessarily reduce their value. But, that, while the notes continued to circulate would be of very little consequence to the person who issues them. And if ever he should wish to discharge them, their depreciation would be of the greatest advantage to him. Suppose for example the first notes to be circulated at par and that, by the time it was thought necessary to repurchase them, they should have been depreciated 50 per cent. it must be evident that the property purchased with the first notes, would repurchase double the quantity of notes, that had been paid for it. Five hundred

hundred pounds in Bank Notes would at the present price purchase nearly one thousand pound 3 per cent. Stock; if then by the increase in the quantity of notes they should be reduced to half their present value, or what amounts to the same thing, Stocks should have risen to *par*, it is obvious that one half of the Stock would redeem all the notes: and that consequently the issuer, besides the interest on his Stock while the notes continued to circulate, would have realized property, equal to half the amount of the notes that had been circulated. Therefore it is evident, that there is nothing to deter the man whose notes are made equal to gold by law, though even for a short time, from circulating them to any amount he may think proper. Let us suppose then that this power is to last only for one year. If the person who enjoyed it should have issued one hundred millions in notes, and should have applied them to the purchase of Stock, he would at the end of the year have a capital equal to his notes; so that even if Stocks had not risen in the interim, and that consequently all the Stock was requisite for discharging the notes, still he would have realized five millions of money as interest on the Stock while in his possession. But the circulating of such a number of notes must necessarily have greatly raised the price of Stock; suppose that it had only risen 10 per cent. in that case nine-tenths of the Stock

would liquidate all the notes: Consequently the issuer would have realized in all fifteen millions sterling! Now, as there is but a certain quantity of property in the Society which could not possibly be increased by the fabricating of the notes, which are things of no intrinsic value, and what has cost comparatively speaking no labour whatever,—it must be evident, that the fifteen millions of property acquired by the issuer of the notes, have been taken out of the labour, or out of the property of the other members of the community; and that consequently the circulating of the paper has produced the same effect on the public, as the imposition of taxes to the amount of fifteen millions. Hence it will be evident, that the power conferred upon the Bank by this Bill is of a nature the most oppressive and dangerous that ever was conferred by the Legislature of any country, on any man, or body of men in the State. How far the Bank will exert this power it is impossible to determine. That it will at the outset use its power with moderation is probable. However, that it has already been extended to a considerable degree, and will be to a still greater, there can be no doubt. But without hazarding an opinion as to what extent the circulation may be increased by the Bank, I shall proceed further to illustrate the folly and injustice of the Bill, by considering it as immediately connected with the transactions between the

Government

Government and the Bank. The Government obtains the enacting a law to make Bank Notes current as gold, and immediately borrows this paper, for which it pays the Bank at least three, but probably six per cent. interest! This is exactly the same as if the Government had first given the Bank a sum of money, and then borrowed it of the Bank! Was ever the Government of any country guilty of an act of such manifest folly and injustice? How many bitter complaints and severe reproaches have been poured out against the French Government on account of its paper? Yet by the circulation of paper in France, the people paid only one tax, but in England they will pay two. For first they will be taxed indirectly by the circulation of the paper, and secondly, directly to pay the interest of the paper circulated. The Government was indebted to the Bank some time ago, to the amount of eleven millions, of which by far the greater part, according to the declaration of the Minister, had been received in paper. How much more it may have borrowed since, or may borrow before the end of the year, it is impossible to determine, but we will suppose that it shall only be twenty millions in all. For these twenty millions the Bank will nearly receive forty millions of 3 per cent. Stock. So that the Nation, besides paying a heavy tax by the circulation of the paper, will pay a direct tax to the Bank of

of twelve hundred thousand pounds per annum. But this will appear a trifle, when we consider the subject under another point of view. A rise hereafter in the price of Stock, as well as in that of all other commodities, will be the necessary consequence of an increase in the circulation; Peace, which must come sooner or later, will be another cause of a rise in the price of Stock; suppose then the Stock given to the Bank in exchange for its paper to be redeemed at 90, (and Stock was redeemed at 98 last Peace) the nation would in that case, besides the interest on the original sum, pay to the Bank thirty-six millions for the twenty millions of its own money that it had borrowed of the Bank! That the money borrowed really does, or of right, ought to have belonged to the Nation, must be obvious on the least reflection; for if the act of the Legislature which is that of the Nation makes the paper of the Bank equal to gold, which the Bill making it legal tender certainly does, it really amounts to the same thing as if the Nation had given to the Bank a sum of money equal to its notes in circulation. Before the passing of this bill, from the idea that the Bank was obliged to keep a certain quantity of gold for circulating its paper, there was some pretence for borrowing it, and paying interest on it; but this was only a pretence; for it is not the gold belonging to the Bank, but the national revenue

that forms the funds for circulating the paper of the Bank; therefore its paper, or at least the greater part of it, ever did belong to the Nation. However, by the present Bill, every shadow of such pretence is taken away. But although this Bill had never existed, and the Bank and not the Nation, had supplied the funds for circulating its paper, still, from what has been proved to be the effects of Bank Notes, it must be obvious, that, with respect to at least four-fifths of the paper in circulation, the case would not be materially altered.

For no man, as has been repeatedly observed, can have a right to a greater share in the productions of the Society, than is equivalent to his property, as it is impossible it should be obtained, but at the expence of some body else. If the Bank therefore has a capital of twenty millions, it ought to derive a revenue from this capital only; but if, while this capital remains either in the funds or in the lands, it circulates twenty millions of notes, it will have a revenue equal to forty millions of property, tho' in fact, its whole property only amounts to twenty millions. The revenue therefore from their notes must be taken out of the labour or property of the Nation at large. Hence, it must be evident, that all the paper that ever has been circulated, (except a portion equal to the quantity of gold kept in the Bank,) did always of right belong

belong to the Nation. These observations, however, are applicable to all Bank Notes independent of the present Bill, but it is with particular reference to this Bill that I mean at present to consider the subject.

The Bill is intended, as it is said, to be only *temporary*. Admitting this to be the case, still the loss to the Nation and advantage to the Bank, pending its duration, will be the same. The Nation will pay the tax, and the Bank will reap the same profit from its paper as from gold. This will be evident from a review of the late transaction between Government and the Bank. Government has made a loan for the purpose of returning seven millions to the Bank for paper that it had borrowed. Now, supposing this paper to have circulated only six months, the Nation will have made the Bank a present of one hundred and seventy five thousand pounds, as the interest on the paper: But this is not all. Where I ask, is the sum of seven millions to come from that is to be given to the Bank? It cannot come from the merchants or bankers, for they are now in great want themselves; besides, when they were even in a more flourishing condition, the Bank was always applied to, to make the advances on their scrip: the seven millions to pay the Bank therefore, must come from the Bank itself. So that the whole farce of the loan, will terminate in this, that the Nation will be burthened with a perpetual tax of three hundred

hundred and fifty thousand pounds per annum, payable to the Bank as the interest on the sum of seven millions of its paper that was borrowed. This therefore (as well as almost all the acts made for borrowing money,) may be termed an act for *consolidating Bank Notes*. From what has been said, it must be obvious that the profits of the Bank pending the duration of the bill must be immense indeed; they may be made whatever the bank shall think proper. For its profits will be exactly proportioned to the quantity of paper that it shall circulate,* and to that quantity no bounds can be set. For altho' a law had been made as was proposed to prevent the Minister from borrowing of the Bank, it would have had no power to prevent the issuing of notes. For

* Perhaps a clumsier attempt was never made to deceive the public than the assembling of a general court to deliberate on the propriety of discounting Exchequer bills. Their paper has been made equal to cash, at least for three months. The only question therefore, was, whether they would be pleased to accept of a present of eight or ten thousand pounds from the Minister! But this is not the only attempt that has lately been made to deceive the public. The order of Council to the Bank, to stop payment in cash, was intended to answer the same purpose: All the world knows that Government had no more right to prevent the bank, than to prevent an individual from paying its debts. The order of Council therefore could be no protection against its Creditors. What then was its use? Why, that which has been stated. The rulers of the Bank found themselves obliged to stop; therefore they applied to the Mi-

as has been observed all transfers of property are made by the intervention of Bank Notes. What then will prevent the bank from purchasing stock or any other property, to what amount they may think proper? This the rulers of the Bank may do either for the advantage of the Corporation, or (which is much more likely to be the case, now, as it probably always has been,) for their own private advantage. Whatever stock or other property they purchase at present, they may sell again just before the expiration of the bill; if the price of stock shall not have advanced, they will, at least, reap the interest on it while in their possession; but there is nothing more certain than that they may raise the price of stock, if they think proper, at least twenty *per cent.* in the course of a month; the advance, whatever it may be, added to the interest, will be their profit. In short, the rulers

nister for this order. For, say they, if we stop without an order from you, the delusion by which we have been so long supported, will immediately be at an end; but if you give us this order, it will be imagined, that we have not stopped from necessity, but from political motives! The clause in the indemnity bill to allow the Bank to re-issue three fourths of the money that shall be lodged in it after the 28th of February, is partly intended for the same purpose as the order of Council. It is introduced partly with the view of propagating an opinion that people have still some confidence in the Bank. But the principal intention is to enable the Bank to issue cash to oblige its friends; or for other purposes which it might not be very proper to specify.

of the Bank, if they understand one another, have only to settle in their own minds what fortunes they wish to make; and they may make them as certainly as if they had the power of turning stones into bars of gold.

The Bill therefore, supposing it to be *limited in its duration*, is not the less unjust and oppressive; but it is by no means likely to be of short existence. Before the expiration of the present bill, in all probability another or the continuance of the present, will be found necessary, as the evil it is intended to remedy must continue to increase from day to day. For as the Bank continues to discount the bills of the merchant, and to supply the government, the disproportion of paper to specie, the real cause of the present embarrassments, must be every day greater.

The repeal of the act of Parliament, for preventing the issuing of small notes, will likewise contribute greatly to increase the present disproportion between paper and specie, as by this means the power of increasing the quantity of paper in circulation, will be greatly increased. The clause to enforce payment will be no restraint whatever. No man will issue paper, who has cash in his possession, for paper is not, as it has been represented, the sign of gold, but the sign of the want of it. Suppose then that the holder of a note applies to the issuer for payment, and is told that he cannot have the cash;

will the former apply to the court in order to enforce payment? certainly not, for by that means he would occasion a general demand which probably would make the man a bankrupt, and then he might lose the whole; he will therefore endeavour to get rid of the note at any rate; on the principle that half a loaf is better than no bread. By these means, probably an artificial depression may take place, and those who have issued notes, may be able to repurchase them for one half the value for which they were first issued, and thereby make ample fortunes at the expence of the public.

When people find that they are obliged to take paper of some kind, they will in general prefer that which is issued by people who are near to them. This will likewise tend greatly to increase the quantity of paper in circulation. For when a man knows that if he carries a country Bank Note for payment, he will be obliged to take a London Bank Note in exchange for it, he will not take the trouble of presenting it, or probably will prefer the security of the country Banker. By this means the bill will have the same effect, as if it had made all Bank Notes legal tenders.

Before the passing of these bills we were very much in the power of Bankers. Their power, however, was limited by their being obliged to preserve a certain proportion between their cash and their paper; but that

is no longer necessary:—all restraint is now removed, and our property is put completely in their power. They may now appropriate to themselves whatever part of it they may think proper. How long such a state of things may last, it is impossible to guess; but that it ought not to endure for one moment is most certain. I shall, therefore, endeavour to point out a way by which the evils arising from the present system may be removed, or at least mitigated:—but before I proceed to this, it may not be improper to offer a few reflections on the nature and use of money.

Gold and Silver have been so long used as the principal medium of exchange, and we have so long experienced their efficacy in obtaining whatever is desirable, that we are in the habit of ascribing to these metals a certain inherent value, and of estimating the riches or poverty of nations by the greater or smaller quantity of the gold and silver they possess. These opinions, however, are certainly erroneous. Gold and Silver, when used as money, are not riches; they are only the representatives of riches:—nor are they so necessarily, but by convention; consequently the same quantity of gold or silver may sometimes represent a greater and sometimes a smaller quantity of riches. Of two islands possessing an equal quantity of gold, if we suppose that there is double the quantity of commodities exchangeable for gold in the one than

than there is in the other: the same quantity of gold would represent in the one island double the quantity of riches that it did in the other. "Gold and silver (*see Wealth of Nations*) are naturally of greatest value among the richest nations."*—That is to say, of two nations

• From this observation of Doctor Smith, it has been inferred that gold and silver are rising in value; and such would certainly have been the case in this country from the great increase in the quantity of our productions, if gold, or paper which is made to answer the purposes of gold, had not been increased in as great, or in a greater degree. For if we suppose the quantity of gold or currency of any other kind to remain unaltered, while the quantity of commodities it circulates be increased, suppose one tenth, it is evident that a certain quantity of the currency will exchange for one tenth more commodities than it did before the increase took place, and consequently its value will be increased with the increasing riches of the country. If on the contrary, the quantity of gold, or paper passing as gold, were increased one tenth, while the quantity of commodities that it serves to circulate remained unaltered, a certain quantity of the currency will exchange for one tenth less of the commodities than what it did before its increase. This is a truth upon which Doctor Smith every where insists. He tells us that the price of commodities will always depend upon the plenty or scarcity of money. That silver lost two thirds of its value soon after the discovery of America, from the great increase in the quantity. He proves to those, who supposing the riches of nations to depend upon the quantity of their money, are constantly wishing to have laws established for keeping money in the country, that the only effect of these laws would be to reduce its value. Yet he has been supposed to favour the contrary hypothesis. This mistake has been occasioned by his being understood as speaking ab-

solusely

nations where the quantity of specie is equal, gold and silver will purchase the greatest quantity of commodities in that in which commodities are most abundant. The abundance or scarcity, therefore, of gold and silver forms no criterion of the riches of nations.

The

solately, when in fact he is only speaking conditionally. The MONTHLY REVIEWERS have fallen into a strange mistake of this kind. Doctor Smith has observed, that if a law was made to alter the proportions at present established between gold and silver, a certain number of guineas, or a Bank Note would stand for a greater, or smaller number of pounds than what it does at present. That is to say, if a guinea were made by law equal to two and twenty shillings, a twenty guinea note would stand for two and twenty pounds. Having only observed the latter part of the proposition, the reviewers launch out in praises of the wisdom of the Bank of England, for making all its notes payable in pounds, and not in guineas. "For," say they, "the pound is depreciating, but the guineas is appreciating." If by the word *appreciating* they mean an increase in the relative value, surely nothing can be farther from the truth.—For as long as the present laws respecting money remain in force, a guinea will only pass for one pound one shilling. It can, therefore, make no difference whatever whether the note be given for twenty guineas, or for twenty-one pounds. The same number of guineas or shillings would be requisite to discharge it in the one case as in the other. They have made another mistake respecting the effects of an increased capital. Doctor Smith has said, that the profits upon the capital will be reduced in proportion as the amount of the capital is increased. But here, as well as in respect to the value of money, he is only to be understood as speaking conditionally. If, for example, while the demand for any commodity remains unaltered, the capital employed in its production should be

The real riches of nations do not consist in money, but in the commodities exchangeable for money. Were all the gold and silver, therefore, used as money, in England, or in the world, this moment annihilated, as the quantity of commodities would remain undiminished, and as we should retain the power of producing an equal quantity annually, we should still continue to be as rich as we are at this moment.* By countries where there

be increased, there is no doubt but that the profits must be reduced; but if the demand be increased in the same or in a greater proportion than the capital, the profit will likewise either remain at a stand, or be increased. The profit on capital in one employment may likewise be increased by an increase of capital in another employment. If, for example, the capital employed in manufactures were increased, without a proportional increase of the capital employed in agriculture, as the quantity of revenues derived from manufactures would be increased, the demand for the productions of agriculture would likewise be increased; which increase in the demand would necessarily increase the profits on the capital employed in agriculture. This will account in part for the difference in the rise of the price of the productions of agriculture, and of those of manufacture. The capital employed in the latter has been much more increased than the capital employed in the former.

* Nothing can be more ridiculous than the clamour that has been raised about the exportation of gold, as if by that means the country had been ruined. The greatest quantity of gold that ever was in the country did not probably amount to one sixtieth part of the whole capital:—and of this quantity not more than one fourth, and perhaps not one sixth part has been exported.

there are no mines, gold and silver must have been at first obtained in exchange for commodities. Before the export of commodities there ought to have been produced a greater quantity than was requisite for the home consumption ; and before any part of the exports were exchanged for gold, there must have been obtained a sufficient quantity of other foreign productions to answer the demand at home ; for gold is only taken to balance the account, that is, in exchange for that part of the exports which exceeds the imports. Before gold is imported, a nation not only enjoys what it can produce within itself, but likewise what its neighbours can supply. Hence it is evident that gold is not necessary either for producing commodities at home, or for obtaining them from abroad. It has only been made by convention a medium of exchange, in order to save the trouble of barter, or the exchanging of one commodity for another. Could men agree upon any other medium of exchange, gold and silver might be easily dispensed with.

If we suppose the society to be divided into two parts, the one consisting of those who do not labour, and the other of those who do, all that is wanted by the one is something with which it can purchase labour, and the other something in exchange for labour with which it can purchase necessaries. It can be of no consequence to the landholder

F

whether

whether he receives his rent in specie or in something else, (paper for example) provided it will enable him to purchase a certain quantity of labour,—nor to the labourer whether he is paid in gold, or, as is the case in some countries, in shells :—whether he receives a silver shilling or a paper shilling, provided the latter will procure him as great a quantity of necessaries as the former. Paper, therefore, if the people of a country would agree to make it the general medium of exchange, would answer all the purposes of gold and silver. This, indeed, can be now no longer a matter in dispute ; as it has been already sufficiently proved by experience. In Scotland, where guinea notes have long been in use, gold is seldom to be seen.—The same will probably soon be the case with respect to silver, both in Scotland and in England. The small paper Bank Notes will make it disappear. If the quantity, however, of the paper be not extraordinarily increased, which probably may be the case, every thing will in a little time go in the usual train. When men once find that paper will pass from hand to hand, they will no longer refuse it, even though they had the power to do it :—but that they have not ; for although they might keep back their commodities for a little while, they must in the end bring them to market, and if there is no specie they must of necessity take paper.

As it is evident then, both from reason and experience, that paper will answer all the purposes of gold and silver,—and as it seems agreed that the quantity of the currency cannot be reduced without great inconveniency, the present quantity of paper in circulation may be continued. But as it has been proved that every bank-note that is issued acts as a tax upon the public,—that the allowing individuals to multiply their money by means of bank-notes, is attended with the same consequences as the permitting a set of skilful coiners to introduce an equal quantity of base money,—and that especially by the new laws respecting bank-notes, the whole property in the kingdom is virtually put into the power of the Bank and Bankers—paper ought no longer to remain on its present footing. Some means should certainly be devised for remedying, or at least preventing the increase of the evils produced by the circulation of bank notes.

While it shall be deemed necessary to continue the circulation of paper, there appears to me only two methods by which the evils now produced by it can be either prevented or palliated;—these are, either to oblige every man to hold a quantity of stock equal to the quantity of his notes in circulation, upon which the interest from the nation shall be withheld while his notes continue to circulate—or to suppress by law all the paper

now in circulation, and to supply its place with an equal quantity of national paper. The latter of these plans is certainly far preferable to the former, and would, as will presently be shewn, be productive of very great national advantages.

It does not appear that to the first of these plans any reasonable objection could be made for no man will assert, (whatever may be his thoughts on the occasion) that he ought to have a greater revenue than what is proportioned to his property. If a man is in possession of one hundred thousand pounds stock at 5 per cent. his revenue ought to be five thousand pounds per annum. But if while he had one hundred thousand pounds in stock he should circulate one hundred thousand pounds in notes, he would then have a revenue of ten thousand pounds a year;—but his paper is a thing of no intrinsic value, consequently he has no juster title to the five thousand pounds he had made upon it, than if he had gone upon the highway in order to obtain it. No man, therefore, ought to have a revenue from his paper and from his capital at the same time.—When he receives interest on the one, it ought to cease on the other.*

* Whenever the propriety of banking has been enquired into, it has only been with a view to ascertain whether there was an adequate capital: and it has been proposed by some
 allow

It may be alledged that, if bankers were prevented from having the interest on their stock as well as on their paper, they would no longer take the trouble of circulating paper.—This would be an event by no means to be regretted. Bankers would be obliged to keep their paper in circulation for some time; as they could not possibly redeem it all at once. It could only be withdrawn by degrees: and in this way the evil might be removed without the least injury to individuals. If, however, the present quantity of paper were thought necessary, bankers might easily be induced to continue their business, by allowing them a profit adequate to their trouble. If, for example, bankers made 5 per cent. on their notes, and there were only 3 per cent. stopped on their capital, the difference of 2 per cent. would certainly be a sufficient compensation for their trouble;—their profits would then be 7 per cent. on their

Now every man to issue a quantity of notes equal to his capital; and by others, a quantity equal to his revenue!—This would, indeed, be fulfilling the Scripture—“*To him that hath shall be given, and from him that hath not shall be taken even that which he hath.*” Suppose, for example, that all the landholders in England were to issue a quantity of notes equal to the value of their lands, would they not thereby double, or at least greatly increase their incomes, and consequently their share in the productions of the society? and if they increase their share, must not that of the other members of the society be reduced?

their capital ; and the 3 per cent. stopped on the stock, would be some compensation to the public for the loss it sustains by the circulation of the paper, and at the same time prevent the circulation from being increased beyond a certain point.

The second plan, however, that has been proposed for remedying the evils produced by the circulation of paper, is much less intricate, and would be much more efficacious. But before I proceed to point out the advantages with which it would be attended, I shall first endeavour to obviate the objections that may be brought against it.

After having proved that bank notes are and have been, productive of so many evils to society, the justice of suppressing them so far as the issuers are concerned, can be no longer a matter of doubt ;—nor will the justice of introducing national paper in their stead be disputed, after it has been proved that such a measure would be advantageous to the public ; for whatever promotes the public interest must be just. As to individuals, no one would suffer the least injury from such a measure ; for it can be of no consequence (as has been observed) whether a man is paid his rents or wages in gold or in paper, provided every other person is obliged to take it of him at the same value he received it. This would be the case with national paper when made a general legal tender.—Every person would

be obliged to take it, consequently no one could suffer any injury :—and when this was once generally understood, it would be received without the least hesitation. The farmer would never hesitate to take in exchange for his corn what he was certain would be accepted from him by the government for taxes,—by his landlord for rent,—by his parson for tythes,—by the merchant for the goods he might have occasion to purchase,—and by his labourers for wages. Nor would any of those descriptions of persons refuse to take paper when they knew it would procure them whatever they wished to purchase of the farmers, and of one another.

So far, therefore, as individuals are concerned, there could be no injustice in making national paper a general legal tender. But it is asserted that as soon as paper is made a legal tender it will sink below its nominal value ; and the depreciation of paper that took place in France and in America is held up as an unanswerable argument to prove the truth of this assertion. It will appear, however, on enquiry, that arguments drawn from the fate of paper in these countries, are by no means applicable in the present case. At the time of issuing the greater part of the paper money, both in France and in America, these countries were in such situations that it only depended on the fate of a battle whether it should be worth something or nothing. This was

was particularly the case in France, where the paper was issued as assignments (*assignats*) on estates, for which the original proprietors were still contending in arms. The paper was likewise declared to be only circulated for a time, at the end of which it was to be redeemed. Consequently, like all other papers of that nature, it bore a discount, proportioned to the distance of time or the uncertainty of payment. The distinction made by the government between paper and gold both in receipts and payments, and the paper not being in all cases a legal tender, were likewise powerful causes of its depreciation: the principal cause, however, was the great increase in the quantity.

Before the issuing of paper in either of these countries the circulation was what may be termed full; that is to say, there was a quantity of currency fully equal to the demand. Whatever addition, therefore, was made to the quantity of the currency, must have produced a proportional decrease in its value; or, what amounts to the same thing, a proportional increase in the nominal price of commodities; otherwise a part of the currency equal to the increase must have remained unemployed. This may be explained by what took place in Scotland on the first establishment of banks in that country. As the price of commodities were not raised on the first issuing of the paper, the market was soon overstocked, and

the superfluous quantity being constantly brought back upon the bankers, they were ruined in a very short time by the expence of collecting gold to redeem their paper. If the superfluous quantity of paper circulated in France and in America could have been in like manner brought back upon the original issuer, the paper would have maintained its value: but as this could not be done, the quantity of money that came to market being constantly increased, its value was necessarily diminished, or, what is the same thing, the nominal price of commodities increased.

The national paper proposed to be established in this country would be subject to none of the causes of depreciation that have been enumerated. Our present government does not depend on the fate of a battle. It is probably as stable now as it ever was at any former period.—Besides, as the paper would not be assignments upon any particular property, and as it would be divided among all the members of the community, it never could be either the desire or the interest of the country, under any form of government, to suppress or abolish the paper, more than it would be to destroy a quantity of guineas to the same amount.

There would be no danger of depreciation from too great a quantity—the principal cause of the depreciation in France. For as it is proposed to suppress all the paper now in

circulation, an equal quantity of national paper will be wanted in its stead; and as the value of a thing will always depend upon the demand; if there be not a greater quantity issued than what is necessary to replace that which is now in circulation, it will suffer no depreciation.

But it may be asked, "who will assure us that the government will not issue a greater quantity?"—And who, I should be glad to know, will assure us that the Bank or Bankers will not increase the quantity of their paper now in circulation?—There can be no doubt but they will. As fast as ever the Minister can raise taxes to pay the interest the Bankers will supply him with an additional quantity of paper; so that in either case the increase of the quantity of paper will be the same. For the addition, however made to the quantity of the paper by the Minister we should pay no direct tax, but for that made by the Bank and Bankers we certainly shall.—Therefore, although no bound could be prescribed to the paper proposed to be issued by the government, our condition would still be better even in that case than what it is at present. However, by regulation which will be proposed, it may be put entirely out of the power of Ministers to increase the quantity of paper beyond what is really necessary for the circulation.

It may perhaps be alledged, that from the
gener

general prejudice in favour of gold, people will always be ready to part with their commodities at a less nominal price in exchange for gold than for paper; and that thereby the latter will be depreciated. But it is well known that all transactions of any consequence must be effected by paper, and altho' some trifling distinctions should at first be made in petty dealings, it would not be the case for any length of time, for the moment people found by experience that paper would answer all the purposes of gold, they would no longer make any distinction between them: however, if there were any doubts on this head, by a very simple expedient people would soon be induced to give the preference to paper. Repeal, for example, all the existing laws against the coiners or counterfeiters of guineas, half guineas, or other coins of that metal, and gold would instantly cease to circulate, for no person would take it, at least it should prove to be counterfeit. And here it may not be improper to observe, that if it should be deemed necessary to restore the circulation of gold, it is only by these means that it can be effected, as gold would no longer circulate after the repeal of the laws against counterfeiters, it would be of no further use to the proprietors, they would therefore readily carry it to the mint to exchange for national paper. By these means, a quantity of specie might be gradually collected to-

gether, sufficient for supplying the circulation; and whenever that was the case, all the paper might be exchanged for gold. But this is what never would be desired after the superior advantages attending a national paper currency were once thoroughly understood*.

The

If forty millions of money were requisite for the circulation of this country, forty millions worth of commodities must be exported, in order to purchase gold. But all the labour and expences requisite for the production of these commodities might be saved by making use of paper money. It was on this principle that Doctor Smith recommended to strenuously the substituting of paper in the room of gold. But such a measure in the hands of individuals must necessarily be productive of great evils; for by increasing the riches of one part of the society it necessarily impoverishes the other. Beside the Doctor did not foresee (which indeed is very extraordinary) that when paper was once introduced the quantity of the currency might be increased to almost any amount. He was of opinion, that a quantity of gold, equal to the paper put into circulation, must have been withdrawn, and that the whole sum of the currency could not be increased. But this appears to be a great mistake, for if a certain quantity of currency be requisite for circulating all the commodities in the society whose their whole nominal value is as one hundred; if the nominal value be increased to one hundred and ten, one tenth more currency will be requisite for their circulation. In proportion therefore, as the prices of commodities are increased, the quantity of the currency may be also increased. Every increase of the currency will tend to raise the price of commodities, in degrees therefore the quantity of the currency may be increased to almost any amount.

The possibility of its being counterfeited, will perhaps be brought as an objection against the introduction of a national paper. But it will certainly not be more liable to be counterfeited than guineas, or Bank Notes, are at present. Suppose however that forgeries were sometimes committed, (which indeed never could be to any great amount) the Nation would suffer no greater injury than it does at present by the circulation of an equal quantity of Bank Notes. Forgery, by increasing the quantity would lessen the value of money; this is the only effect it would produce. But is not the quantity of money infinitely more increased by banking than ever it could probably be by forgery? Nothing indeed could render the injustice of the present paper system more conspicuous than a comparison of its present effects with those resulting from forgery, when a national paper currency was established by law; for it would be impossible to point out any one evil produced by the latter, that is not produced by the former. But the banker not only robs the public, but when he fails, (which has often been the case) he likewise robs the individual; whereas the forger of national paper would never rob the individual; he would only rob the public, and that to so trifling an amount that it could never be felt.

It may probably be imagined, that the influence of Ministers would be increased by the
intro-

introduction of a national paper currency. But that is certainly a great mistake. Such a measure would, on the contrary, be the most efficacious that could be adopted for lessening the influence of Ministers. But in order that this may be rightly understood, it will be necessary to make some enquiry into the present mode of raising money for the public service, and into the grounds and reasons for establishing the Bank.

As by far the greatest part of the currency in every country will always be employed in different ways, if any new way of employing money be found out, either a part must be taken from that which is already engaged in other employments, or an additional quantity created. The latter must be the case, when the new demand is very considerable. About the time of the Revolution, in consequence of the wars in which we were involved by that event, the demands of Government for money were so greatly increased, that it was found very difficult to supply them. To obviate this difficulty by increasing the quantity of money to be lent, was the motive for establishing the Bank *. It had been remarked,

that

* From the transactions that have taken place between the government and the Bank, an idea has been entertained that they are connected; that the stability of the government is involved in that of the Bank: some persons have gone so far, as to

that paper once put into circulation, was a considerable time in coming round for payment. It was therefore rightly concluded, that money might be increased (and consequently fortunes made) by means of promissory notes, in exact proportion to the quantity of these notes that could be put into circulation. As the quantity that could be put into circulation must be regulated by the time in which the notes continued to circulate before they were presented for payment: and as it was supposed, that this time would in a great measure depend upon the idea that was entertained of the credit of the issuers, it was thought necessary to unite into one body a number

term it *the National Bank*, and its paper *government paper*. It is easy to perceive from what motives these notions have been propagated. However, it is certain that they are perfectly unfounded. There is no more legal or necessary connection between government and the Bank, than between a gentleman and his Steward. The revenues are received by the Bank, and by it distributed to the different claimants; this might as well be done by an individual, or by any Corporation; were the present Corporation to become bankrupt to-morrow, the nation would suffer no loss whatever, and the government would have no difficulty in finding another Corporation which would answer all its purposes quite as well as the present; indeed the wisest thing that government could have done, would have been to have let it become bankrupt, and to have established another in its stead. The new Bank would have had new credit, and things would have gone on smoothly again for a while.

number of rich individuals, who might be jointly responsible for the notes, and thereby procure them an additional degree of credit. A number of merchants and bankers, therefore, applied to Government for a charter of incorporation. This was granted on certain conditions; and might without any great impropriety have been entitled, a Charter to enable certain individuals to rob the people of England. This will be sufficiently obvious from a review of its effects.

As soon as the Bank was established, Government began to take its paper as cash. Now let us suppose that it was necessary at first to have one hundred pounds in specie for every four hundred pounds in paper; and that the interest given by Government was only 5 per cent. this would make 20 per cent. on the capital. But as all loans are paid by instalments, the interest on the sum lent is double for the first year. Upon every loan there is likewise what is called a *douceur*; if we suppose this to be five pounds on every hundred pounds received by Government, the whole profit on the capital for the first year will amount to 60 per cent. As all the taxes for paying the interest on the national debt are received by the Bank, after a little time there was no capital wanted for circulating its paper, as the amount of the taxes was more than sufficient for that purpose; since that time therefore the whole interest on the paper

per has been received without any deduction for interest on the capital. The paper has been circulated by the national revenue, and consequently all the profit arising from it did of right belong to the nation. By the institution of the Bank, therefore, the public has been robbed to that amount.

There can be no doubt, but that the real motives for establishing the Bank, were such as they have been represented, for on no other grounds could the measures that have been adopted respecting it, at the commencement of almost every war, be accounted for. An act is generally passed to enable the Bank to increase its capital. This would be raising up a competitor against the Minister; as the Bank would be borrowing money at the same time that he wanted to borrow money for himself. We may be sure therefore, that he has something more in view than what appears at first sight. The case is such as it has been stated; all the money in the country is engaged in different ways, it is therefore necessary to create an additional sum. The Bank will already have issued as much paper as the taxes can circulate; it was therefore necessary, previous to the Indemnity Bill, to increase its funds before it could increase the quantity of paper. This was done in the first instance, by increasing its capital. By borrowing a million of cash for example, it was enabled to circulate five or six millions of paper for some time. Before this fund was exhausted,

H

the

the taxes that were imposed for paying the interest on the additional debt, began to be paid in: and after a little time formed a perpetual fund for circulating the paper. The Bank increases the quantity of money by issuing paper, and the nation paying taxes to support its circulation. The Bank reaps all the advantages, and the Nation suffers all the loss. There is another way in which the Bank raises money, and that without borrowing. The Government issues what is called Exchequer Bills, upon which it pays 4 per cent. interest. The Bank takes, we will suppose 100l. of this Exchequer paper, and gives the Government 100l. of its own paper in lieu of it. Upon the hundred pounds of Exchequer Bills, the Bank will be able to raise 100l. in cash. With this 100l. in cash, it is enabled to circulate 400l. or 500l. in paper. Which paper it may lend to Government; so that without any money of its own, it may make 20 per cent. upon every Exchequer Bill that is issued by Government. What has been said of Exchequer Bills, will apply equally to *Navy Bills*. As they bear an interest, and are generally at a considerable discount, people in the country are constantly sending money to town in order to purchase them. And this money centers in the Bank, and serves as a fund to circulate its paper. This accounts for the great depreciation of Government paper. The Bank or Loan Contractors take it either from Government, or from individuals in exchange for their own paper.

*Money
Bills*

and immediately sell it in order to raise cash. By these means Government paper is constantly coming to market, and consequently must be depreciated, especially as the depreciation falls entirely on the Nation.

It is this use that is made of Government paper, by the Bank, merchants, and bankers, that explains the seeming paradox of the lender borrowing of the borrower. In the year 1793, at the time the Minister was borrowing eleven millions, he lent the merchants and bankers five millions in Exchequer Bills, and on other occasions since that time he has lent them considerable sums. In order to explain the nature of this transaction, let us suppose, that to a person whom the Minister means to favour, he has granted 100,000*l.* of the loan; if this person has neither money nor credit, he will be obliged to bring his Stock to market. But if there be too much Stock brought to market, there will be no premium, and consequently no advantage to the favourite. But if the Minister will lend him Exchequer Bills, he may in that case bring his Stock slowly to market and thereby reap great advantage. Let us suppose for example, that the money on the loan is to be advanced at four different periods, of which the first shall be at three months after making the contract. If by the time of paying the first instalment he has disposed of 25,000*l.* of his contract at the usual premium of 12 per cent. he will have received 3000*l.* He will

likewise receive 750l. as one quarter's interest on 75,000l. in order therefore to make up the 18,250l. for paying the first instalment on the 75,000l. still in hand, it will be requisite that he should raise 14,500l. Government we will suppose lends him Exchequer Bills to this amount, upon which he will be able to raise the money. If before the next instalment is due he has disposed of 25,000l. more of his contract, he will receive 9250l. that is to say, 6250l. as the first instalment that has been paid; and 3000l. premiums, to which if we add 355l. the difference between the interest on 50,000l. and on 14,500l. Exchequer Bills, the whole amount will be 9605l. there will then be wanted 2895l. to make up the second instalment on 50,000l. of the contract still in hand. If this sum be raised in the same manner as the former on Exchequer Bills, he will then owe 17,395l. to Government; and will hold 50,000l. Stock. Before paying this instalment, we will suppose that he shall have sold another 25,000l. of this contract on the same terms as the former. In that case he will receive 12,500l. for the two instalments that have been paid, 3000l. As premium, and 76l. as the difference between the interests on 25,000l. and on 17,395l. which will make in all the sum of 15,576l. as there will only be 6250l. wanted for paying the third instalment on the 25,000l. still in hand, with the remaining 9,326l. he might redeem Exchequer bill

Bills to that amount; and by that means the debt he owed to Government would be reduced to 8025l. If before the last instalment become due he could dispose of the remaining 25,000l. the account would stand as follows. For three instalments that had been advanced, he would receive 18,750l. and as premiums 3000l. in all the sum of 21,750l. out of this he would have to pay Government 8025l. for Exchequer Bills, the remaining 13,725l. would be what he would have gained by his 100,000l. of the loan, without having had, or at least lent a single sixpence of his own money!

There can be little doubt, but that the money for Government is generally raised by the means that have been stated; for we have found the Contractors immediately after having made their contract, complaining of the want of money, and consulting with the Minister on the means of raising it; and every year a certain quantity of Exchequer Bills makes part of the Supplies. The Bank, or men of paper connected with the Bank, take the Exchequer Bills in exchange for an equal quantity of *their* Bills. And, as with the money raised on the Government paper, they can circulate paper of their own to four or five times the amount, where they borrow one pound they may lend five; so that on a loan of eighteen millions the subscribers may make a profit of three or four millions, without advancing one shilling of their

time. cash. But do they take

money in these cases but cash?

their own money.*

From the above statement it must be evident that while paper remains on its present establishment, and as long as government continues to raise money for the public service in the manner it has done, at present, bankers and merchants will form a phalanx of insuperable force in support of ministers and in defence of the war system. But if Ministers, instead of borrowing paper, were to circulate paper themselves, that whole body

* It must not be imagined from what has been said of the mode of contracting the national debt, that the national creditor holds his property by a title less valid, than the landholder, or the holder of property of another description. All property depends upon the law. However unjust when considered in the abstract, the means may have been by which property has been obtained, if the legal conditions have been fulfilled the title must be perfectly valid; but with respect to the far greater part of the national creditors, their property in the funds has been obtained in the same manner that all other kind of property is supposed to be obtained, that is to say, in exchange for other property. It is only to the contractors and men of paper, to whom what has been said can be applied, the present holders of stock have purchased it for money, of those contractors, under the guarantee of the law; besides the debt has been contracted by those who so far as property is concerned, had a right to contract it. All our wars have been begun, if not continued to the end, with the consent of the great majority of the aristocracy, or people of property. This was especially the case with the last and the present war, for which the landholders were almost unanimous. The debt has been contracted in their names, by agents legally appointed to act in their behalf, the title, therefore, either in law or equity, to property in the funds, is as valid, as if it had been secured by mortgages on their estates.

body would be as strictly united, from interest, in opposing them, as they are at present in supporting them. By suppressing all other paper, therefore, and circulating national paper in its stead, the influence of Ministers, so far from being increased, would be greatly diminished.

Having stated, as was proposed, and endeavoured to obviate the objections that appeared most likely to be brought against the establishment of a national paper currency, I shall now propose a plan for its introduction. There are, no doubt, several ways in which this may be done; but the following appears to me the most simple and least objectionable:—

Let a law be made to suppress, within a certain period, all the bank or promissory notes now in circulation. This law would make it necessary for bankers to convert their capitals into money in order to redeem their paper. All the property of bankers, therefore, would be brought to market.—But as there would be no money after the suppression of paper to purchase it, Commissioners should be appointed to take that part of the property which consisted of Stock in exchange for national paper. As it would be in the power of the Commissioners either to raise or to depress the price of Stock, they should be obliged by the law to take it at a certain price, which might either be fixed at 60 for the 3 per cent. and all the others in proportion, or, what would

would be much more equitable, at the price of something above the price at which they have been purchased by the present holders.—By this operation all that part of the national debt now in the possession of the bank or bankers would be payed off.

On that part of the property of bankers consisting of lands and houses, they would find no difficulty in raising money, for there are, no doubt, many people who, if they could part with their stock at the price at which it was purchased, would be very well pleased to change the security of the funds for that of land and houses. By this means another part of the debt would be redeemed, and another portion of the paper of bankers exchanged for national paper—and so far the operations are perfectly simple.—But there is another and perhaps a very considerable part of the capital which now circulates the paper of bankers that consists of other paper,—I mean of Merchants' bills. On this part of the property of bankers, stock holders would not be willing to lend their money; nor would it be for the public interest that the government should lend money to individuals. By the following method, however, all difficulties may be surmounted:—Let there be given to the present Corporation of the Bank of England, or to any other body of men who were willing to give sufficient security, a sum of national paper sufficient to liquidate all the remaining private paper in circulation.—For the

the paper received from government the Bank should pay 3 per cent. interest. The difference between this and 5 per cent. which they would receive from merchants and bankers, whose paper they would liquidate on the same terms that they now discount merchants' bills would be the profit. The interest paid by the Bank might be employed either as a sinking fund for the redemption of the remainder of the national debt, or to pay the interest on it in the place of taxes.

Thus by the means that have been proposed national paper might, without the least inconveniency, be substituted in the room of the paper now in circulation. What the quantity of that paper may be it is difficult to determine, but it must have been very great even before the war. Nevertheless, there were great complaints of a scarcity of what they termed *circulating medium*. This would never be the case in future:—Government would always be able to supply the Bank with as much as was wanted. But in order to prevent an increase of the paper beyond what was really requisite for the circulation, the Bank should be obliged to receive from individuals, at a certain interest, any quantity of national paper not below a certain amount; and the government should be obliged to receive from the Bank all the paper that was not necessary for carrying on its business. This regulation would not only prevent, to a certainty, an unnecessary in-

I

crease

crease of the national paper, but would give it a great superiority over cash;—for as people would soon perceive that the former could be used much more conveniently than the latter in all the operations of commerce; and that, when not wanted for other purposes, it could be lent upon the most undoubted security, which would not be the case with specie, there can be no question, but that paper would always be preferred to cash where there was a choice. For facilitating to individuals the means of disposing of their superabundant paper, it might be proper to establish a bank, on the principal of that in London, in each county:—with these, however, the government should have no intercourse, but through the principal Bank. Commissioners appointed by Parliament should manage the business with the Bank. They might either once a week, or once a month, deliver to, or receive from the bank, whatever sums were deficient or superfluous. The accounts would be settled once a year or oftner; and according to the state of the account, the bank would either pay or receive interest. A statement of the affairs of the bank should be annually laid before Parliament, in order to ascertain the amount of its debts, which ought, *in no case, to be allowed to exceed its capital.*

As individuals (it has been proved) we could suffer no injury whatever from the introduction of a national paper on the plan that

that has been proposed, and as a nation we should reap the highest advantages. The paper now in circulation has been supposed to amount to two hundred millions: if that be really the case, the whole national debt might be liquidated at once.—For although nominally it amounts to double that sum, according to the present price of Stock it very little exceeds it; but if only the one half were put into circulation, a fund might be formed which, in a very short time, would liquidate the remainder. By means of a national paper, and perhaps by no other, we may be free'd from a most enormous load of taxes; and, what is of infinitely greater consequence, from the overwhelming influence of Ministers, which is principally derived from taxes and the present establishment of paper. Had we, at the time of establishing the bank, instead of resorting to that measure, introduced a national paper, how very different would our situation have been from what it is at present!

The quantity of paper in circulation would have been much less than what it is at present, for we should have avoided many of the wars in which we have been engaged.—In place of having to pay a debt of four hundred millions, and fourteen millions of taxes annually, until the debt is paid off, we should never have had any debts, but should have saved upwards of four hundred millions which have been already payed as interest.

And

And in place of being surrounded by spies and informers—overawed by soldiers and castles—restrained by treason and sedition bills: we should have been at this moment in full possession of all the liberties granted by the Bill of Rights! At the time of the revolution, however, it might have been found efficient to establish a paper currency by law; but that would by no means be the case at present. Indeed the practicability of such a measure is no longer a matter in dispute. Paper has already been made equal to Gold, by being made legal tender. The only questions now to be determined are these.—ought the advantages arising from this measure to belong to a private company, or to the public?—shall the nation suffer itself to be taxed by the Bank, first indirectly by the issuing of paper, and afterwards directly to pay the interest on the paper; or will it issue the paper itself, and by that means avoid the direct tax? The determination of the public on these questions, (if ever the subject should engage its attention) cannot be doubtful. The folly and injustice of the present system must be immediately perceived. If therefore a paper currency of some kind, should be deemed absolutely necessary: there is every reason to believe that the proposed plan (or something similar,) for the introduction of **A NATIONAL PAPER CURRENCY** will be adopted.

F I N I S.

p. 56 from Enstatment of 1793



Printed by J. S. Bate
Bristol-street